

ARIZONA CORPORATION COMMISSION
UTILITIES DIVISION

ANNUAL REPORT MAILING LABEL – MAKE CHANGES AS NECESSARY

W-02126A
Avra Water Cooperative, Inc.
11821 W. Picture Rocks Rd.
Tucson, AZ 85743

A
RECEIVED

MAR 22 2005

AZ Corporation Commission
Director Of Utilities

ANNUAL REPORT

FOR YEAR ENDING

12	31	2004
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FOR COMMISSION USE

ANN04	04
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COMPANY INFORMATION

Company Name (Business Name) Avra Water Co-op, Inc.

Mailing Address 11821 West Picture Rocks Rd
(Street)

Tucson AZ 85743
(City) (State) (Zip)

520-682-7331 520-682-8933
Telephone No. (Include Area Code) Fax No. (Include Area Code) Pager/Cell No. (Include Area Code)

Email Address chrisward@avrawater.com

Local Office Mailing Address 11821 West Picture Rocks Rd
(Street)

Tucson AZ 85743
(City) (State) (Zip)

520-682-7331 520-682-8933
Local Office Telephone No. (Include Area Code) Fax No. (Include Area Code) Pager/Cell No. (Include Area Code)

Email Address chrisward@avrawater.com

MANAGEMENT INFORMATION

Management Contact: Chris Ward General Manager
(Name) (Title)

11821 West Picture Rocks Road Tucson AZ 85743
(Street) (City) (State) (Zip)

520-682-7331 520-682-8933
Telephone No. (Include Area Code) Fax No. (Include Area Code) Pager/Cell No. (Include Area Code)

Email Address chrisward@avrawater.com

On Site Manager: Chris Ward
(Name)

11821 West Picture Rocks Rd Tucson AZ 85743
(Street) (City) (State) (Zip)

520-682-7331 520-682-8933
Telephone No. (Include Area Code) Fax No. (Include Area Code) Pager/Cell No. (Include Area Code)

Email Address chrisward@avrawater.com

☐ Please mark this box if the above address(es) have changed or are updated since the last filing.

Statutory Agent: _____

(Name)

(Street)

(City)

(State)

(Zip)

Telephone No. (Include Area Code)

Fax No. (Include Area Code)

Pager/Cell No. (Include Area Code)

Attorney: _____

Michael Milroy

(Name)

1500 Northwest Tower No. 1

Tucson

AZ

85701-1612

(Street)

(City)

(State)

(Zip)

520-882-1200

Telephone No. (Include Area Code)

Fax No. (Include Area Code)

Pager/Cell No. (Include Area Code)

☐ Please mark this box if the above address(es) have changed or are updated since the last filing.

OWNERSHIP INFORMATION

Check the following box that applies to your company:

☐ Sole Proprietor (S)

☐ C Corporation (C) (Other than Association/Co-op)

☐ Partnership (P)

☐ Subchapter S Corporation (Z)

☐ Bankruptcy (B)

☒ Association/Co-op (A)

☐ Receivership (R)

☐ Limited Liability Company

☐ Other (Describe) _____

COUNTIES SERVED

Check the box below for the county/ies in which you are certificated to provide service:

☐ APACHE

☐ COCHISE

☐ COCONINO

☐ GILA

☐ GRAHAM

☐ GREENLEE

☐ LA PAZ

☐ MARICOPA

☐ MOHAVE

☐ NAVAJO

☒ PIMA

☐ PINAL

☐ SANTA CRUZ

☐ YAVAPAI

☐ YUMA

☐ STATEWIDE

COMPANY NAME**AVRA WATER CO-OP INC.****UTILITY PLANT IN SERVICE AS OF 08/31/04**

Acct. No.	DESCRIPTION	Original Cost (OC)	Accumulated Depreciation (AD)	O.C.L.D. (OC less AD)
301	Organization	8,685		8,685
302	Franchises			
303	Land and Land Rights	106,088		106,088
304	Structures and Improvements	191,922	96,393	95,529
305	Storage Tanks	28,418	14,273	14,145
307	Wells and Springs	889,312	446,658	442,654
311	Pumping Equipment	378,635	190,170	188,465
320	Water Treatment Equipment	9,334	4,688	4,646
330	Distribution Reservoirs and Standpipes	1,110,199	557,598	552,601
331	Transmission and Distribution Mains	2,886,642	1,449,818	1,436,824
333	Services	465,590	233,843	231,747
334	Meters and Meter Installations	206,363	103,646	102,717
335	Hydrants	23,162	11,633	11,529
336	Backflow Prevention Devices			
339	Other Plant and Misc. Equipment			
340	Office Furniture and Equipment	138,029	69,325	68,704
341	Transportation Equipment	113,217	56,863	56,354
343	Tools, Shop and Garage Equipment	102,166	51,313	50,853
344	Laboratory Equipment			
345	Power Operated Equipment			
346	Communication Equipment	28,074	14,100	13,974
347	Miscellaneous Equipment			
348	Other Tangible Plant			
	TOTALS	6,685,836	3,300,321	3,385,515

This amount goes on the Balance Sheet Acct. No. 108

COMPANY NAME**AVRA WATER CO-OP INC.****CALCULATION OF DEPRECIATION EXPENSE FOR CURRENT YEAR****AS OF 08/31/04**

Acct. No.	DESCRIPTION	Original Cost (1)	Depreciation Percentage (2)	Depreciation Expense (1x2)
301	Organization	8,685		
302	Franchises			
303	Land and Land Rights	106,088		
304	Structures and Improvements	191,922	3.33%	6,275
305	Storage Tanks	28,418	2.22%	317
307	Wells and Springs	889,312	3.33%	28,708
311	Pumping Equipment	378,635	12.50%	46,918
320	Water Treatment Equipment	9,334	20.00%	1,867
330	Distribution Reservoirs and Standpipes	1,110,199	2.22%	22,019
331	Transmission and Distribution Mains	2,886,642	2.00%	55,700
333	Services	465,590	3.33%	15,391
334	Meters and Meter Installations	206,363	8.33%	16,822
335	Hydrants	23,162	2.00%	463
336	Backflow Prevention Devices			
339	Other Plant and Misc. Equipment			
340	Office Furniture and Equipment	138,029	6.83%	9,063
341	Transportation Equipment	113,217	20.00%	22,505
343	Tools, Shop and Garage Equipment	102,166	5.00%	4,929
344	Laboratory Equipment			
345	Power Operated Equipment			
346	Communication Equipment	28,074	5.00%	1,404
347	Miscellaneous Equipment			
348	Other Tangible Plant			
	SUBTOTAL	6,685,836		232,381
	Less: Amortization of Contributions			28,591
	TOTAL	6,685,836		203,790

This amount goes on Comparative Statement of Income and Expense Acct. No. 403.

COMPANY NAME**AVRA WATER CO-OP INC.****BALANCE SHEET**

Acct. No.		8/31/03	8/31/2004
		BALANCE AT BEGINNING OF YEAR	BALANCE AT END OF YEAR
	ASSETS		
	CURRENT AND ACCRUED ASSETS		
131	Cash	\$ 836,713	\$ 732,129
134	Working Funds		
135	Temporary Cash Investments		
141	Customer Accounts Receivable	143,256	138,312
146	Notes/Receivables from Associated Companies		
151	Plant Material and Supplies	27,247	28,279
162	Prepayments	12,684	11,354
174	Miscellaneous Current and Accrued Assets	38,230	38,301
	TOTAL CURRENT AND ACCRUED ASSETS	\$ 1,058,130	\$ 948,375
	FIXED ASSETS		
101	Utility Plant in Service	\$ 6,100,255	\$ 6,685,836
103	Property Held for Future Use		
105	Construction Work in Progress	88,990	221,631
108	Accumulated Depreciation - Utility Plant	3,067,940	3,300,321
121	Non-Utility Property		
122	Accumulated Depreciation - Non Utility		
	TOTAL FIXED ASSETS	\$ 3,121,305	\$ 3,607,146
	TOTAL ASSETS	\$ 4,179,435	\$ 4,555,521

NOTE: The Assets on this page should be equal to Total Liabilities and Capital on the following page.

COMPANY NAME**AVRA WATER CO-OP INC.****BALANCE SHEET (CONTINUED)**

Acct. No.		8/31/2003	8/31/2004
		BALANCE AT BEGINNING OF YEAR	BALANCE AT END OF YEAR
	LIABILITIES		
	CURRENT LIABILITIES		
231	Accounts Payable	\$ 19,191	\$ 10,155
232	Notes Payable (Current Portion)	94,274	163,193
234	Notes/Accounts Payable to Associated Companies		
235	Customer Deposits	53,299	45,782
236	Accrued Taxes	79,011	81,399
237	Accrued Interest		
241	Miscellaneous Current and Accrued Liabilities	27,645	17,845
	TOTAL CURRENT LIABILITIES	\$ 273,420	\$ 318,374
	LONG-TERM DEBT (Over 12 Months)		
224	Long-Term Notes and Bonds	\$ 199,132	\$ 163,726
	DEFERRED CREDITS		
251	Unamortized Premium on Debt		
252	Advances in Aid of Construction	1,049,807	1,029,363
255	Accumulated Deferred Investment Tax Credits		
271	Contributions in Aid of Construction	1,276,530	1,429,528
272	Less: Amortization of Contributions	681,283	709,873
281	Accumulated Deferred Income Tax		
	TOTAL DEFERRED CREDITS	\$ 1,645,054	\$ 1,749,018
	TOTAL LIABILITIES	\$ 2,117,606	\$ 2,231,118
	CAPITAL ACCOUNTS		
201	Common Stock Issued		
211	Paid in Capital in Excess of Par Value		
215	Retained Earnings	2,061,829	2,324,403
218	Proprietary Capital (Sole Props and Partnerships)		
	TOTAL CAPITAL	\$ 2,061,829	\$ 2,324,403
	TOTAL LIABILITIES AND CAPITAL	\$ 4,179,435	\$ 4,555,521

COMPANY NAME**AVRA WATER CO-OP INC.****COMPARATIVE STATEMENT OF INCOME AND EXPENSE**

Acct. No.	OPERATING REVENUES	8/31/2003		8/31/2004	
		PRIOR YEAR		CURRENT YEAR	
461	Metered Water Revenue	\$	1,253,094	\$	1,285,924
460	Unmetered Water Revenue				
474	Other Water Revenues		64,683		62,669
	TOTAL REVENUES	\$	1,317,777	\$	1,348,593
	OPERATING EXPENSES				
601	Salaries and Wages	\$	281,920	\$	275,528
610	Purchased Water				
615	Purchased Power		142,381		153,330
618	Chemicals		2,670		3,714
620	Repairs and Maintenance		28,973		32,241
621	Office Supplies and Expense		40,996		36,571
630	Outside Services		39,844		48,999
635	Water Testing		7,156		8,129
641	Rents				
650	Transportation Expenses		60,248		52,892
657	Insurance - General Liability		17,136		16,001
659	Insurance - Health and Life		43,914		41,831
666	Regulatory Commission Expense - Rate Case		26,278		0
675	Miscellaneous Expense		62,730		79,953
403	Depreciation Expense		196,573		203,790
408	Taxes Other Than Income		26,837		26,442
408.11	Property Taxes		96,484		99,359
409	Income Tax				
	TOTAL OPERATING EXPENSES	\$	1,074,140	\$	1,078,780
	OTHER INCOME/EXPENSE				
419	Interest and Dividend Income	\$	6,755	\$	6,504
421	Non-Utility Income		915		89
426	Miscellaneous Non-Utility Expenses		330		851
427	Interest Expense		21,084		12,981
	TOTAL OTHER INCOME/EXP	\$	(13,744)	\$	(7,239)
	NET INCOME/(LOSS)	\$	229,893	\$	262,574

COMPANY NAME AVRA WATER CO-OP, INC.

SUPPLEMENTAL FINANCIAL DATA

Long-Term Debt

	LOAN #1	LOAN #2	LOAN #3	LOAN #4
Date Issued	JUN-94	SEP-01	VARIES	
Source of Loan	CO-BANK	WIFA	WIFA	
ACC Decision No.				
Reason for Loan	Capital Improvements	Capital Improvements	Capital Improvements	
Dollar Amount Issued	\$660,007	\$120,000	\$285,199	\$
Amount Outstanding	\$0	\$79,069	\$247,850	\$
Date of Maturity		8/31/16	12/01/23	
Interest Rate	VARIABLE	3.75%	3.206%	%
Current Year Interest	\$5,705	\$3,254	\$2,971	\$
Current Year Principle	\$207,170	\$7,168	\$37,349	\$

Meter Deposit Balance at Test Year End \$119,688

Meter Deposits Refunded During the Test Year \$29,180

COMPANY NAME Avra Water Co-op, Inc.

WATER COMPANY PLANT DESCRIPTION

WELLS

ADWR ID Number*	Pump Horsepower	Pump Yield (gpm)	Casing Depth (Feet)	Casing Diameter (Inches)	Meter Size (inches)	Year Drilled
55-626902	20	90	604	8"	4"	1969
55-626903	25	130	635	8"	4"	1969
55-626905	50	310	605	12"	4"	1972
55-511639	60	280	700	12"	4"	1985
55-623953	30	130	604	8"	4"	1978
55-539972	20		613	12"	3"	1994
55-557354	60	200	800	12"	4"	1996
55-564890	60	270	800	12"	4"	1998

* Arizona Department of Water Resources Identification Number

BOOSTER PUMPS		FIRE HYDRANTS	
Horsepower	Quantity	Quantity Standard	Quantity Other
20	3	42	
15	4		
10	4		
7.5	2		
5	4		

STORAGE TANKS		PRESSURE TANKS	
Capacity	Quantity	Capacity	Quantity
28,000	1	5,000	2
50,000	2	3,000	5
500,000	3	1,500	1
		1,000	1

COMPANY NAME Avra Water Co-op, Inc.

WATER COMPANY PLANT DESCRIPTION (CONTINUED)

MAINS

Size (in inches)	Material	Length (in feet)
2	PVC	10,800
3	PVC	11,050
4	PVC	44,605
5	PVC	-
6	PVC	276,213
8	PVC	30,923
10	PVC	-
12	PVC	15470

CUSTOMER METERS

Size (in inches)	Quantity
5/8 X 3/4	2775
3/4	5
1	9
1 1/2	2
2	4
Comp. 3	
Turbo 3	
Comp. 4	1
Tubo 4	
Comp. 6	
Tubo 6	

For the following three items, list the utility owned assets in each category.

TREATMENT EQUIPMENT:

Sodium Hypochlorite injectors at 6 well sites

STRUCTURES:

2 small storage sheds – 10 x 12

1 used 40ft trailer converted to storage shed

OTHER:

COMPANY NAME: Avra Water Co-op, Inc.

WATER USE DATA SHEET BY MONTH FOR CALENDAR YEAR 2004

MONTH	NUMBER OF CUSTOMERS	GALLONS SOLD	GALLON PUMPED (Thousands)
JANUARY	2520	20,260,428	19,982,300
FEBRUARY	2536	18,780,642	18,408,700
MARCH	2538	16,013,560	23,390,154
APRIL	2522	25,992,760	25,640,800
MAY	2506	29,576,431	27,869,700
JUNE	2510	39,218,070	59,831,800
JULY	2536	41,599,688	42,192,200
AUGUST	2528	35,161,924	37,114,000
SEPTEMBER	2533	33,419,518	33,535,100
OCTOBER	2537	28,932,000	28,217,200
NOVEMBER	2549	23,105,774	21,129,900
DECEMBER	2514	18,193,188	20,743,000
TOTAL		330,383,587	358,054,854

Is the Water Utility located in an ADWR Active Management Area (AMA)?

(X) Yes () No

Does the Company have an ADWR Gallons Per Capita Per Day (GPCPD) requirement?

(X) Yes () No

If yes, provide the GPCPD amount: 122

What is the level of arsenic for each well on your system. See Below mg/l

(If more than one well, please list each separately.)

Note: If you are filing for more than one system, please provide separate data sheets for each system.

Well No 1	13ppb	Well No 8	18ppb
Well No 2	12 ppb	Well No 9	15 ppb
Well No 4	7.4 ppb		
Well No 5	15 ppb		
Well No 6	19 ppb		

COMPANY NAME _____ YEAR ENDING 12/31/2004

PROPERTY TAXES

Amount of actual property taxes paid during Calendar Year 2004 was: \$ 95,240.48

Attach to this annual report proof (e.g. property tax bills stamped "paid in full" or copies of cancelled checks for property tax payments) of any and all property taxes paid during the calendar year.

If no property taxes paid, explain why. _____

FINANCIAL INFORMATION

Attach to this annual report a copy of the companies' year-end (Calendar Year 2004) financial statements. If you do not compile these reports, the Utilities Division will supply you with blank financial statements for completion and filing. **ALL INFORMATION MUST BE ARIZONA-SPECIFIC AND REFLECT OPERATING RESULTS IN ARIZONA.**

The company has a fiscal year end of August 31. Attached are their audited financial statements for their fiscal year August 31, 2004.

COMPANY NAME AVRA WATER CO-OP, INC. YEAR ENDING 12/31/2004

INCOME TAXES

For this reporting period, provide the following:

Federal Taxable Income Reported	<u>TAX EXEMPT</u>
Estimated or Actual Federal Tax Liability	<u>TAX EXEMPT</u>

State Taxable Income Reported	<u>TAX EXEMPT</u>
Estimated or Actual State Tax Liability	<u>TAX EXEMPT</u>

Amount of Grossed-Up Contributions/Advances:

Amount of Contributions/Advances	<u>N/A</u>
Amount of Gross-Up Tax Collected	<u>N/A</u>
Total Grossed-Up Contributions/Advances	<u>N/A</u>

Decision No. 55774 states, in part, that the utility will refund any excess gross-up funds collected at the close of the tax year when tax returns are completed. Pursuant to this Decision, if gross-up tax refunds are due to any Payer or if any gross-up tax refunds have already been made, attach the following information by Payer: name and amount of contribution/advance, the amount of gross-up tax collected, the amount of refund due to each Payer, and the date the Utility expects to make or has made the refund to the Payer.

CERTIFICATION

The undersigned hereby certifies that the Utility has refunded to Payers all gross-up tax refunds reported in the prior year's annual report. This certification is to be signed by the President or Chief Executive Officer, if a corporation; the managing general partner, if a partnership; the managing member, if a limited liability company or the sole proprietor, if a sole proprietorship.


SIGNATURE

3-8-05
DATE

Chris E. Ward
PRINTED NAME

General Manager
TITLE

**VERIFICATION
AND
SWORN STATEMENT
Intrastate Revenues Only**

RECEIVED

MAR 22 2005

AZ Corporation Commission
Director Of Utilities

VERIFICATION

STATE OF ARIZONA

I, THE UNDERSIGNED

OF THE

COUNTY OF (COUNTY NAME)
PIMA
NAME (OWNER OR OFFICIAL) TITLE
CHRIS WARD
COMPANY NAME
AVRA WATER CO-OP, INC.

DO SAY THAT THIS ANNUAL UTILITY REPORT TO THE ARIZONA CORPORATION COMMISSION

FOR THE YEAR ENDING

MONTH	DAY	YEAR
12	31	2004

HAS BEEN PREPARED UNDER MY DIRECTION, FROM THE ORIGINAL BOOKS, PAPERS AND RECORDS OF SAID UTILITY; THAT I HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID UTILITY FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH AND EVERY MATTER AND THING SET FORTH, TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

SWORN STATEMENT

IN ACCORDANCE WITH THE REQUIREMENT OF TITLE 40, ARTICLE 8, SECTION 40-401, ARIZONA REVISED STATUTES, IT IS HEREIN REPORTED THAT THE GROSS OPERATING REVENUE OF SAID UTILITY DERIVED FROM ARIZONA INTRASTATE UTILITY OPERATIONS DURING CALENDAR YEAR 2004 WAS:

Arizona Intrastate Gross Operating Revenues Only (\$)

\$ 1,409,467

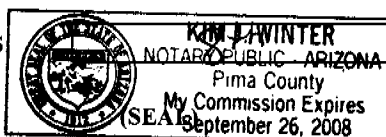
**(THE AMOUNT IN BOX ABOVE
INCLUDES \$ 73,902
IN SALES TAXES BILLED, OR COLLECTED)**

****REVENUE REPORTED ON THIS PAGE MUST INCLUDE SALES TAXES BILLED OR COLLECTED. IF FOR ANY OTHER REASON, THE REVENUE REPORTED ABOVE DOES NOT AGREE WITH TOTAL OPERATING REVENUES ELSEWHERE REPORTED, ATTACH THOSE STATEMENTS THAT RECONCILE THE DIFFERENCE. (EXPLAIN IN DETAIL)**

SUBSCRIBED AND SWORN TO BEFORE ME

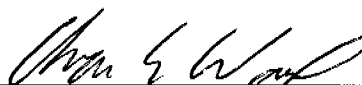
A NOTARY PUBLIC IN AND FOR THE COUNTY OF

THIS



DAY OF

COUNTY NAME	Pima	
MONTH	March	2005


SIGNATURE OF OWNER OR OFFICIAL
520-682-7331
TELEPHONE NUMBER

MY COMMISSION EXPIRES 9-26-2008


SIGNATURE OF NOTARY PUBLIC

RECEIVED

VERIFICATION
AND
SWORN STATEMENT
RESIDENTIAL REVENUE
INTRASTATE REVENUES ONLY

MAR 22 2005

AZ Corporation Commission
Director Of Utilities

VERIFICATION

STATE OF ARIZONA

I, THE UNDERSIGNED

OF THE

DO SAY THAT THIS ANNUAL UTILITY REPORT TO THE ARIZONA CORPORATION COMMISSION

FOR THE YEAR ENDING

MONTH	DAY	YEAR
12	31	2004

HAS BEEN PREPARED UNDER MY DIRECTION, FROM THE ORIGINAL BOOKS, PAPERS AND RECORDS OF SAID UTILITY; THAT I HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID UTILITY FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH AND EVERY MATTER AND THING SET FORTH, TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

SWORN STATEMENT

IN ACCORDANCE WITH THE REQUIREMENTS OF TITLE 40, ARTICLE 8, SECTION 40-401.01, ARIZONA REVISED STATUTES, IT IS HEREIN REPORTED THAT THE GROSS OPERATING REVENUE OF SAID UTILITY DERIVED FROM ARIZONA INTRASTATE UTILITY OPERATIONS RECEIVED FROM RESIDENTIAL CUSTOMERS DURING CALENDAR YEAR 2004 WAS:

ARIZONA INTRASTATE GROSS OPERATING REVENUES

\$ 1,409,467

(THE AMOUNT IN BOX AT LEFT
INCLUDES \$ 73,902

IN SALES TAXES BILLED, OR COLLECTED)

*RESIDENTIAL REVENUE REPORTED ON THIS PAGE
MUST INCLUDE SALES TAXES BILLED.


SIGNATURE OF OWNER OR OFFICIAL

520-682-7331
TELEPHONE NUMBER

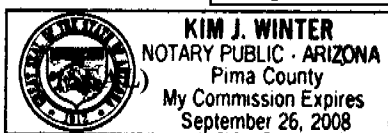
SUBSCRIBED AND SWORN TO BEFORE ME

A NOTARY PUBLIC IN AND FOR THE COUNTY OF

THIS

8th

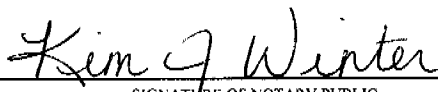
DAY OF



MY COMMISSION EXPIRES

9-26-2008

NOTARY PUBLIC NAME <u>Kim Winter</u>	
COUNTY NAME <u>Pima</u>	
MONTH <u>March</u>	<u>2005</u>

x 
SIGNATURE OF NOTARY PUBLIC

AVRA WATER CO-OP, INC.
(A Cooperative Water Utility Corporation)
Report on Examination of
Financial Statements

For the Years Ended
August 31, 2004 and 2003

**ULLMANN
& COMPANY P.C.**
Certified Public Accountants

To the Board of Directors of
Avra Water Co-op, Inc.
Tucson, Arizona

We have compiled the balance sheet of Avra Water Co-op, Inc. (a corporation) as of August 31, 2004 and 2003, and the comparative statement of income and expense for the years then ended included in the accompanying prescribed form in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

Our compilation was limited to presenting in the form prescribed by the Arizona Corporation Commission information that is the representation of management. We have not audited or reviewed the financial statements referred to above and, accordingly, do not express an opinion or any other form of assurance on them.

These financial statements are presented in accordance with the requirements of the Arizona Corporation Commission, which differ from generally accepted accounting principles. Accordingly, these financial statements are not designed for those who are not informed about such differences.

All other information contained in the accompanying prescribed form has not been audited, reviewed, or compiled by us and, accordingly, we assume no responsibility for that information.

Ullmann & Company

ULLMANN & COMPANY, P.C.
Certified Public Accountants

March 3, 2005

Avra Water Co-op, Inc.
(A Cooperative Water Utility Corporation)
Financial Statements
August 31, 2004 and 2003

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INDEPENDENT AUDITORS' REPORT

To The Board of Directors and
Members of Avra Water Co-op, Inc.

We have audited the accompanying balance sheets of Avra Water Co-op, Inc. (a cooperative water utility corporation) as of August 31, 2004 and 2003, and the related statements of revenue and expenses and accumulated excess of revenue over expenses and cash flows for the years then ended. These financial statements are the responsibility of the Co-op's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Avra Water Co-op, Inc. as of August 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ullmann & Company

ULLMANN & COMPANY, P.C.
Certified Public Accountants

September 17, 2004

Avra Water Co-op, Inc.
(A Cooperative Water Utility Corporation)
Balance Sheets

Assets

	<u>August 31</u>	
	<u>2004</u>	<u>2003</u>
<u>Utility Plant</u>		
Plant in Service	\$ 6,685,836	\$ 6,100,255
Less: Accumulated Depreciation	<u>3,300,321</u>	<u>3,067,940</u>
Net Plant in Service	\$ 3,385,515	\$ 3,032,315
 Construction Work in Progress	 <u>221,631</u>	 <u>88,990</u>
<u>Net Utility Plant</u>	<u>\$ 3,607,146</u>	<u>\$ 3,121,305</u>
 <u>Current Assets</u>		
Cash and Cash Equivalents	\$ 732,129	\$ 741,588
Accounts Receivable (Net of Allowance For Doubtful Accounts of \$3,000 for 2004 and 2003)	 138,312	 143,256
Material and Supplies Inventory (Stated at Lower of Cost or Market)	 28,279	 27,247
Prepaid Expenses	<u>11,354</u>	<u>12,684</u>
 <u>Total Current Assets</u>	 <u>\$ 910,074</u>	 <u>\$ 924,775</u>
 <u>Other Assets</u>		
Restricted Cash	\$ -	\$ 95,125
Deferred Financing Fees	1,993	2,844
Investment	<u>36,308</u>	<u>35,386</u>
 <u>Total Other Assets</u>	 <u>\$ 38,301</u>	 <u>\$ 133,355</u>
 <u>Total Assets</u>	 <u>\$ 4,555,521</u>	 <u>\$ 4,179,435</u>

The accompanying notes are an integral part of these financial statements.

Avra Water Co-op, Inc.
(A Cooperative Water Utility Corporation)
Balance Sheets

Capital and Liabilities

	<u>August 31</u>	
	<u>2004</u>	<u>2003</u>
<u>Capitalization</u>		
<u>Equity</u>		
Accumulated Excess of Revenue Over Expenses	\$ 2,324,402	\$ 2,061,828
<u>Contributions in Aid of Construction</u>	\$ 719,655	\$ 595,248
<u>Long-Term Debt (Net of Current Portion)</u>	\$ 163,726	\$ 199,132
<u>Total Capitalization</u>	\$ 3,207,783	\$ 2,856,208
<u>Current Liabilities</u>		
Current Maturity of Long-Term Debt	\$ 163,193	\$ 94,274
Accounts Payable	10,155	19,191
Customer Security Deposits	45,782	53,299
Current Portion of Customer Meter Advances	29,000	22,000
Current Portion of Customer Advances in Aid of Construction	15,000	18,000
Accrued Property Taxes	67,072	64,574
Other Accrued Liabilities	32,173	42,082
<u>Total Current Liabilities</u>	\$ 362,375	\$ 313,420
<u>Deferred Credits and Other Liabilities</u>		
Customer Meter Advances (Net of Current Portion)	\$ 90,688	\$ 113,123
Customer Advances in Aid of Construction (Net of Current Portion)	894,675	896,684
<u>Total Deferred Credits and Other Liabilities</u>	\$ 985,363	\$ 1,009,807
<u>Total Equity and Liabilities</u>	\$ 4,555,521	\$ 4,179,435

The accompanying notes are an integral part of these financial statements.

Avra Water Co-op, Inc.
(A Cooperative Water Utility Corporation)
Statements of Revenue and Expenses and
Accumulated Excess of Revenue Over Expenses

	Year Ended August 31	
	<u>2004</u>	<u>2003</u>
<u>Operating Revenue</u>	\$ 1,348,592	\$ 1,317,776
<u>Operating Expenses</u>		
Gross Salaries and Wages	\$ 280,857	\$ 287,060
Less Capitalized Salaries and Wages	(5,330)	(5,140)
Net Salaries and Wages	\$ 275,527	\$ 281,920
Purchased Power	153,330	142,381
Depreciation and Amortization	203,790	196,573
Property Taxes	99,359	96,484
Legal and Accounting	43,763	34,589
Payroll Taxes	23,277	23,304
Repairs and Maintenance	44,084	38,799
Insurance	13,505	13,723
Engineering	5,236	5,254
Transportation	52,892	60,248
Employee Benefits	41,831	43,914
Office Supplies and Postage	37,720	36,011
Workers' Compensation Insurance	2,496	3,413
Provision for Doubtful Accounts	2,381	263
Advertising	-	552
Amortization of Rate Case	-	26,279
Other	79,587	70,432
<u>Total Operating Expenses</u>	\$ 1,078,778	\$ 1,074,139
<u>Excess of Operating Revenue Over Operating Expenses</u>	\$ 269,814	\$ 243,637
<u>Other Revenue <Expenses></u>		
Interest on Debt	\$ (12,981)	\$ (21,084)
Amortization of Financing Fees	(851)	(330)
Interest Income	6,504	6,755
Non-Operating Revenue	88	915
<u>Total Other Revenue <Expenses></u>	\$ (7,240)	\$ (13,744)
<u>Excess of Revenue Over Expenses</u>	\$ 262,574	\$ 229,893
<u>Accumulated Excess of Revenue Over Expenses - Beginning</u>	2,061,828	1,831,935
<u>Accumulated Excess of Revenue Over Expenses - Ending</u>	\$ 2,324,402	\$ 2,061,828

The accompanying notes are an integral part of these financial statements.

Avra Water Co-op, Inc.
(A Cooperative Water Utility Corporation)
Statements of Cash Flows

	Year Ended August 31	
	<u>2004</u>	<u>2003</u>
<u>Cash Flows from Operating Activities</u>		
Cash Received from Customers	\$ 1,310,558	\$ 1,261,173
Cash Paid for Expenses	(891,137)	(849,216)
Interest Received	6,504	6,755
Interest Paid	(13,903)	(23,084)
<u>Net Cash Provided by Operating Activities</u>	<u>\$ 412,022</u>	<u>\$ 395,628</u>
<u>Cash Flows from Investing Activities</u>		
Utility Plant Expenditures	\$ (718,222)	\$ (186,465)
Proceeds - Release of Restricted Cash	96,087	83,381
Interest Credited to Restricted Cash	(962)	(1,926)
<u>Net Cash Used in Investing Activities</u>	<u>\$ (623,097)</u>	<u>\$ (105,010)</u>
<u>Cash Flows from Financing Activities</u>		
Proceeds - Customer Advances in Aid of Construction	\$ 137,624	\$ 14,089
Proceeds - Contributions in Aid of Construction	39,375	34,374
Proceeds - Customer Meter Advances	13,335	8,260
Proceeds - Customer Security Deposits	26,646	24,349
Long-Term Debt Borrowings	285,199	-
Refunds of Customer Security Deposits	(34,163)	(17,516)
Refunds of Customer Advances in Aid of Construction	(14,714)	(22,260)
Principal Payment of Debt	(251,686)	(107,214)
<u>Net Cash Provided (Used) in Financing Activities</u>	<u>\$ 201,616</u>	<u>\$ (65,918)</u>
<u>Net Change in Cash and Cash Equivalents</u>	<u>\$ (9,459)</u>	<u>\$ 224,700</u>
<u>Cash and Cash Equivalents at</u> <u>Beginning of Year</u>	<u>741,588</u>	<u>516,888</u>
<u>Cash and Cash Equivalents at</u> <u>End of Year</u>	<u>\$ 732,129</u>	<u>\$ 741,588</u>

The accompanying notes are an integral part of these financial statements.

Avra Water Co-op, Inc.
(A Cooperative Water Utility Corporation)
Statements of Cash Flows

	Year Ended	
	<u>August 31</u>	
	<u>2004</u>	<u>2003</u>
<u>Reconciliation of Excess of Revenue</u>		
<u>Over Expenses from Operating Activities</u>		
Excess of Revenue Over Expenses	\$ 262,574	\$ 229,893
<u>Adjustments to Reconcile Excess of</u>		
<u>Revenue Over Expenses to Net Cash</u>		
<u>Provided by Operating Activities</u>		
Depreciation and Amortization	\$ 203,790	\$ 196,573
Deferred Rate Case Expenses	-	26,279
Amortization of Financing Fees	851	330
<Increase> Decrease in:		
Accounts Receivable	4,944	(19,651)
Materials and Supplies Inventory	(1,032)	3,048
Prepaid Expenses	1,330	(2,397)
Increase <Decrease> in:		
Accounts Payable	(9,036)	1,659
Accrued Property Taxes	2,498	754
Other Liabilities	(9,909)	(993)
Patronage Distributions Received -		
Noncash Portion	(922)	(2,000)
Meter Advances Refunded -		
Noncash Portion	(28,770)	(21,710)
Construction Contract Credits		
Noncash Portion	<u>(14,296)</u>	<u>(16,157)</u>
<u>Total Adjustments</u>	<u>\$ 149,448</u>	<u>\$ 165,735</u>
<u>Net Cash Provided by Operating Activities</u>	<u>\$ 412,022</u>	<u>\$ 395,628</u>

The accompanying notes are an integral part of these financial statements.

Avra Water Co-op, Inc.
(A Cooperative Water Utility Corporation)
Notes to Financial Statements
August 31, 2004 and 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

These financial statements include the accounts of Avra Water Co-op, Inc., an Arizona Non-Profit Corporation, which is owned by its water users.

On January 3, 1979, the Co-op purchased the assets, Certificate of Convenience and Necessity, and the franchise of Acorn Water Company. Acorn Water Company was serving the unincorporated area known as Avra Valley, which is located in Pima County, Arizona. Concurrent with the purchase, the Co-op entered into a construction project to improve and expand the existing system. Substantially all of the financing for the acquisition, improvement, and expansion of the system was obtained from the Farmers Home Administration. The financing consisted of a \$382,400 loan and a \$449,800 grant. The grant need not be repaid provided the Co-op complies with the terms of the grant agreement. The grant requires the Co-op to manage, operate, and maintain the water system in an efficient, economical, and nondiscriminatory manner and to expand the system from time to time to meet reasonable anticipated growth or service requirements in the area within the Co-op's jurisdiction. The Co-op may not transfer or dispose of any part of the system which was constructed or improved with grant funds without written consent from Farmers Home Administration.

Nature of Business

The Co-op provides water to customers all located in an unincorporated area known as Avra Valley, Arizona.

Utility Plant

Property, plant and equipment comprising the utility plant is recorded at cost. Periodically, the Arizona Corporation Commission may review the basis of the plant and equipment and establish a new cost basis for user rate making purposes. The Co-op will adjust the cost basis of its assets to comply with the Arizona Corporation Commission at such time. Renewals and betterments are charged to plant accounts and costs of depreciable property retired and renewal costs less salvage are removed from utility plant accounts in accordance with standard accounting practices prescribed for water utilities. Repairs and maintenance are charged to operations as incurred.

Avra Water Co-op, Inc.
(A Cooperative Water Utility Corporation)
Notes to Financial Statements
August 31, 2004 and 2003

Depreciation and Amortization

Depreciation charges are determined on rates allowed by the Arizona Corporation Commission and were calculated on the straight-line basis at rates that range from two to twenty percent pursuant to an order by the Arizona Corporation Commission.

Contributions in aid of construction are being amortized at a rate equal to the rate allowed for depreciation, as a reduction of depreciation charges.

Amortization of deferred rate case expenses began during the year ended August 31, 2002 using the straight-line method over two years pursuant to an order by the Arizona Corporation Commission.

Deferred financing fees are being amortized using the straight-line method over the life of the related notes.

Income Taxes

The Co-op is a non-profit corporation and exempt from Federal and Arizona income taxes on income related to its exempt purpose pursuant to Internal Revenue Code Section 501(c)(12).

Revenue Recognition

Revenues are recorded as services are rendered and include an estimate for amounts unbilled at the end of the year for water used subsequent to the last billing cycle.

Advertising

The Co-op follows the policy of charging the costs of advertising to expense as incurred. The advertising costs were \$0 in 2004 and \$552 in 2003.

Allowance for Doubtful Accounts

Allowance for doubtful accounts is computed based on an analysis of collectibility of accounts receivable at the balance sheet date.

Materials and Supplies Inventory

Materials and supplies inventory is stated at lower of cost or market. For purposes of computing cost, the FIFO method is used. Market value is computed using replacement cost.

Avra Water Co-op, Inc.
(A Cooperative Water Utility Corporation)
Notes to Financial Statements
August 31, 2004 and 2003

Investment

The Co-op's investment in CoBank stock is stated at cost.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Co-op considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

NOTE 2 USE OF ESTIMATES IN PREPARATION OF FINANCIAL STATEMENTS

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 3 UTILITY PLANT

The major components of utility plant in service at August 31, 2004 and 2003 were as follows:

	<u>2004</u>	<u>2003</u>
Land	\$ 106,087	\$ 85,226
Intangibles	8,685	8,685
Water Utility Plant	6,217,653	5,665,816
Furniture and Fixtures	138,029	133,716
Tools	102,166	94,982
Vehicles	<u>113,216</u>	<u>111,830</u>
	<u>\$ 6,685,836</u>	<u>\$ 6,100,255</u>

The Co-op utilizes its personnel to install new meters and services. Capitalized labor for new plant installations was \$1,294 and \$1,511 for 2004 and 2003, respectively.

Avra Water Co-op, Inc.
(A Cooperative Water Utility Corporation)
Notes to Financial Statements
August 31, 2004 and 2003

Depreciation and amortization for the years ended August 31 were as follows:

	<u>2004</u>	<u>2003</u>
Depreciation	\$ 232,381	\$ 220,104
Amortization of Contributions in Aid of Construction	<u><28,591></u>	<u><25,531></u>
Net Depreciation	<u>\$ 203,790</u>	<u>\$ 196,695</u>
Amortization Charged to Other Expenses Deferred Financing Fees	<u>\$ 851</u>	<u>\$ 330</u>

NOTE 4 ADVANCES IN AID OF CONSTRUCTION

Customer advances for construction are subject to refund in accordance with agreements approved by the Arizona Corporation Commission. Agreements provide for refunds equal to 10 percent to 20 percent of annual water revenue generated from the expansion. The repayments are for a maximum agreed-upon period or until repaid in full. Any balance remaining at the end of the agreed-upon period for repayment becomes a contribution in aid of construction. During 2004 thirteen contracts expired and in 2003 four contracts expired. The remaining balances of these contracts in the amounts of \$110,823 and \$20,697 were transferred to contributions in aid of construction in 2004 and 2003, respectively.

The account also includes a water service and development agreement with the Marana Unified School District. The agreement allows for a credit of 100% of the water service revenue to the advance in aid of construction until the entire contract balance is satisfied. The original contract is equal to the amount of the cost of construction of \$254,632. The balance of the contract at August 31 is \$153,572 in 2004 and \$167,868 in 2003. Water sales credited pursuant to the contract were \$14,296 in 2004 and \$16,157 in 2003.

NOTE 5 CUSTOMER METER ADVANCES

The Co-op is refunding meter advances to members in equal installments, without interest, over a ten-year period. The refund is received in the form of a credit to the members on their November water bill.

Avra Water Co-op, Inc.
(A Cooperative Water Utility Corporation)
Notes to Financial Statements
August 31, 2004 and 2003

NOTE 6 FINANCIAL INSTRUMENTS

The Co-op's financial instruments consist of cash, trade accounts receivable, accounts payable and long-term debt. Financial instruments which potentially subject the Co-op to credit risk consist primarily of trade accounts receivables, and cash deposits in bank accounts. The Co-op bills its customers for water usage based on meter readings. Security deposits are collected from new customers and existing customers who have been delinquent in payments two or more times in a twelve-month period, and are held until the customer establishes a good payment history for a twelve-month period. Due to the large number of small accounts, concentrations of credit risk with respect to trade accounts receivables is limited. The Co-op, in the normal course of business, maintains bank balances in excess of FDIC insurance limits.

NOTE 7 SUPPLEMENTAL CASH FLOW INFORMATION

The Co-op engaged in the following investing and financing noncash transactions:

	<u>2004</u>	<u>2003</u>
Equity stock received as patronage distributions	\$ 922	\$ 2,000
Meter deposit refunds applied to amounts due from customers	28,770	21,710
Expired Advance in Aid of Construction contracts transferred to Contributions in Aid of Construction	110,823	20,697
Amounts due from customers applied to construction contract repayments	14,296	16,157

NOTE 8 PATRONAGE DISTRIBUTION

The Co-op received patronage distributions related to its debt and investment with CoBank. The Co-op reported \$1,844 in 2004 and \$2,858 in 2003 in total patronage distributions which have been presented as a reduction in interest expense.

These patronage distributions consisted of cash distributions of \$922 in 2004 and \$858 in 2003 and CoBank stock of \$922 in 2004 and \$2,000 in 2003.

Avra Water Co-op, Inc.
(A Cooperative Water Utility Corporation)
Notes to Financial Statements
August 31, 2004 and 2003

LONG-TERM DEBT CONTINUED

The notes payable to CoBank required the Co-op to maintain a debt service reserve in the amount of \$95,000 for 2003. The amount maintained for debt service reserve at August 31, 2003 was \$95,126. The CoBank note payable was paid in full in December 2003.

NOTE 10 RETIREMENT PLAN CONTRIBUTIONS

The Co-op has adopted a SIMPLE Individual Retirement Account under Section 408 (p) of the Internal Revenue Code for its employees. Employees are allowed to make salary reduction contributions up to \$10,500 for calendar year 2004 and \$9,000 for calendar year 2003. The Co-op must either make a matching contribution to each eligible employee's SIMPLE IRA up to 3 percent of the employee's compensation for the calendar year or make nonelective contributions equal to 2 percent of compensation for the calendar year (up to a maximum of \$200,000 of compensation). The Co-op contributed \$5,629 in 2004 and \$7,557 in 2003.

NOTE 11 INVESTMENT

The investment consists of nonmarketable equity stock in CoBank, a cooperative bank. As a borrower from CoBank, the Co-op is required to purchase equity in CoBank in accordance with CoBank's bylaws and capital plan. The investment in CoBank stock is accounted for by the cost method.

NOTE 12 OPERATING LEASES

The Co-op has operating leases for vehicles and office equipment with lease terms ranging from three to five years. Vehicle and office leases charged to earnings was \$54,815 in 2004 and \$53,155 in 2003. Minimum lease payments under operating lease agreements expiring subsequent to August 31, 2004 are as follows:

2005	\$ 48,355
2006	34,014
2007	12,373
2008	<u>634</u>
	<u>\$ 95,376</u>

Avra Water Co-op, Inc.
(A Cooperative Water Utility Corporation)
Notes to Financial Statements
August 31, 2004 and 2003

NOTE 13 CONSTRUCTION WORK IN PROGRESS

A portion of the construction work in progress in the amount of \$189,827 for 2004 and \$67,950 for 2003 relates to a long-term utility plant construction project. The total estimated cost of the project is \$7,910,000. The Co-op has received approval from the Arizona Corporation Commission to borrow \$5,303,537 of this amount. The Co-op plans to fund the balance of \$2,606,463 with grants.